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SUBJECT: BOTSWANA: U.S. DIAMOND FIRM WAITING OUT THE GLOBAL CRISIS

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REPORT CONTAINS PROPRIETARY BUSINESS INFORMATION.

¶1. (SBU) SUMMARY: U.S. diamond manufacturing and distribution company Lazare Kaplan International (LKI) recently completed construction of a \$10 million factory in Gaborone, but has suspended local operations and retrenched staff due to the global economic crisis. LKI's Botswana Managing Director Alfred Dube told Ambassador Nolan March 19 that he expects the diamond industry to suffer from weak demand at least through 2010. However, he reports that LKI is moving forward with plans to implement a \$250 million loan guaranty facility for sightholders of Botswana's Diamond Trading Center (DTC) approved by the OPIC board in September 2008. Maurice Tempelsman, the Chairman of Lazare Kaplan's Board of Directors, plans to visit Namibia and Botswana in early April. In Botswana, Tempelsman will meet with President Khama and other GOB officials to discuss implementation of the OPIC loan program and possibly to propose a plan for a group of investors to buy rough stones and hold them until diamond demand resumes. END SUMMARY.

LKI Botswana Operations Suspended Due to Lack of Demand

¶2. (SBU) The Ambassador and Pol/Econ Chief met with Alfred Dube, the Botswana Managing Director for U.S. diamond manufacturer Lazare Kaplan International on March 19. Dube explained that LKI recently completed construction of a \$10 million dollar factory in Gaborone, and the company had previously expected the factory to be engaged in cutting and polishing operations by this month. However, because global demand for diamond jewelry sharply declined in the 4th quarter of 2008, LKI realized that they could not begin production in Botswana at this time. Despite having hired and trained staff, LKI was forced to retrench them and indefinitely suspend operations at its new factory. Mr. Dube commented that Lazare Kaplan's Christmas sales had been terrible, and this left a great deal of excess inventory with retailers and in the company's pipeline. Though Mr. Dube predicted that demand for diamonds was not likely to improve much until at least 2010, he was confident that Lazare Kaplan and the other 15 sightholder companies that operate in Botswana will be able to wait out the economic crisis. Though 2009 will be a very bad year, Dube believes that the sightholders will not pull out of Botswana.

Implementation of OPIC Loan Guaranty

13. (SBU) In September 2008, the OPIC Board approved a \$250 million guaranty facility to help Botswana develop its diamond cutting and polishing industry by increasing available credit. The OPIC facility was awarded to Lazare Kaplan in cooperation with participating banks, to include ABN-AMRO. According to Mr. Dube, LKI is still working with ABN and the GOB on implementation of this program. ABN is in the process of applying for a license to operate as a bank in Botswana, which they hope will be granted soon. Though the 16 Botswana sightholders are not borrowing now as they are not buying stones, Dube confirms that LKI is taking the long view and preparing to implement the credit facility so that it will aid business once demand improves. Maurice Tempelsman, the Chairman of Lazare Kaplan's Board of Directors, plans to visit Namibia and Botswana in early April. According to Mr. Dube, Tempelsman will be in Gaborone April 7-9 and plans to meet with President Khama, Finance Minister Gaolathe, and other GOB officials to work out the details of how the OPIC loan guaranty will be implemented. Mr. Dube also explained that during Mr. Tempelsman's visit to Botswana, Lazare Kaplan hopes to propose a plan to the GOB and Debswana which may help as the country and company suffer from the global economic slowdown. According to Dube, it is a complex plan, but the essential idea is to use the capital market to raise a fund to pay Debswana for a stockpile of stones, with the agreement to hold the stones for a certain period and then sell them once diamond demand recovers and split the returns amongst shareholders. Lazare Kaplan has heard initially positive feedback on this idea from both

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Debswana and the GOB, but they will present a more detailed concept paper fleshing out the idea during the Tempelsman visit.

Skepticism Over Zimbabwe's Diamonds

14. (SBU) Ambassador Nolan asked Mr. Dube about reports of a diamond discovery in Zimbabwe's Eastern Highlands. Dube commented that he is skeptical about the Zimbabwe find because there is so little reliable information available. Though the Government of Zimbabwe tries to give the impression that this is a major discovery, Dube says that no evidence has yet been offered to support the GOZ's claim. He said that "some diamonds are being grabbed and sold by corrupt government officials, but they have no idea what they have" (in terms of mining potential). Mr. Dube does not believe that the deposit will be found to have significant value, and he noted that it has not yet been properly assessed. He also confirmed that the GOZ had sought out Russian investment in the diamond field, but that Russia had declined the offer. Mr. Dube noted that his biggest concern was that the Zimbabwean diamonds could cause a negative perception of the diamond industry in western markets. He expressed hope that the Kimberly Process will be used to keep the Zimbabwean stones off the market to avoid any negative perception about illicit diamonds from Zimbabwe.

NOLAN